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SUBJECT: REFERENDUM BILL EXPECTED TO FAIL, BUT SHARON STILL SWEATING TO MUSTER BUDGET MAJORITY IN UPCOMING KNESSET VOTES

REF: TEL AVIV 1456

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4 (b,d).

11. (C) The ongoing political machinations leading up to next week's Knesset votes on the 2005 budget and disengagement referendum legislation, do not change Embassy's expectations that Prime Minister Sharon will muster a Knesset majority for the 2005 budget and that a majority will defeat the referendum bill. The budget and referendum legislation were voted out of committees March 22 and March 23 respectively. Statements issued by the Prime Minister's office March 25 that the budget may fail, as well as reports of Likud elections preparations, could be part of Sharon's tactics to pressure MKs that do not want early elections and/or to be responsible for disengagement failing. Sharon will meet Shinui leader Tommy Lapid March 26 and Yahad leader Yossi Beilin March 27 to seek either yea votes or abstentions from their parties' MKs. At least five of the six Yahad members are willing to help Sharon.

Budget Votes

12. (C) Sharon can still only count on 53 MKs (reftel) to support the budget, with 67 MKs either wavering or set to oppose the budget. Embassy sources have indicated that Sharon may need more than an absolute majority of 61 MKs to ensure government majorities in votes on numerous budget amendments. Embassy sources expect Sharon to garner the necessary combination of yeas and abstentions from at least one Arab party and Yahad, and perhaps several of the 13 Likud rebels, who have tied their support for the budget to Sharon's support for a referendum. If the referendum bill fails on March 28, some of the Likud rebels may decide that since the referendum is dead, they can therefore support the budget. Sharon may sweeten the pot by offering some of the rebels funds for pet programs.

13. (C) Shinui MK Ilan Leibowitch told poloff March 24 that Lapid is not sharing his strategy and ultimate decision with Shinui's rank and file. Leibowitch and fellow Shinui MK Ehud Rassabi told poloff separately March 24 that most Shinui MKs do not want Sharon's government to fall, but that Shinui's 14 MKs will follow Lapid's voting instructions. Leibowitch confided, however, that he will have a hard time sticking to party discipline if his vote would prove decisive. Leibowitch speculated that Lapid would announce shortly before the vote that Shinui will abstain to save disengagement.

Referendum Vote

14. (C) Chances for passage of the referendum bill are negligible, regardless of the vote of Shas, which resists the concept of referendums out of fear they could be used on religious issues. Shas spokesperson Yitzhik Soudri and Shas MK Amnon Cohen told poloff March 23 and March 24 respectively that they are confident that Shas spiritual leader Rabbi Ovadia Yosef will instruct the 11 Shas MKs to oppose the referendum. Soudri said he did not expect Rabbi Yosef to change his opposing position despite the "heavy pressure" that settler movement rabbis are exerting on him to support the bill. Ultra-Orthodox Agudat Yisrael MK Ya'akov Litzman and Degal HaTorah MK Moshe Gafni indicated to poloff that their respective parties will also oppose the bill, although Gafni was less committal. Assuming the positions of these religious parties remain firm, over 70 MKs would rally against the bill. If it fails, the Knesset cannot reconsider a disengagement referendum bill for six months.

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